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## Agenda Item 5

April 11, 2011

### TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. **SUBJECT:** Adoption of Policy for the Role of Private Asset Class Board Investment Consultants
- II. **PROGRAM:** Total Fund
- III. **RECOMMENDATION:** Recommend to the Investment Committee adoption of the Statement of Investment Policy for the Role of Private Asset Class Board Investment Consultants
- IV. **ANALYSIS:**

#### **Background**

At prior Committee meetings, staff was directed to explore the role of Private Asset Class Board Investment Consultants and explore the independence and the economics surrounding consultant roles.

A preliminary discussion was held at the December 2010 Policy Subcommittee meeting. Staff provided additional information at the February 2011 Policy Subcommittee meeting and was asked to bring forward policy language regarding the role of Board Investment Consultants, specifically pertaining to Private Asset Classes, at the April 2011 Policy Subcommittee meeting.

#### **Recommendation**

Staff recommends adoption of the Role of Private Asset Class Board Investment Consultants Policy to clarify the role of the Private Asset Class Board Investment Consultants. The Policy outlines three fundamental objectives based upon the guiding principles presented in February:

- Private Asset Class Board Investment Consultants cannot manage assets for the Fund.
- Private Asset Class Board Investment Consultants cannot perform work for Staff on special projects.
- Private Asset Class Board Investment Consultants cannot provide opinions to Staff regarding specific investment transactions.

In addition, the Policy details Private Asset Class Board Investment Consultant responsibilities within three categories:

- Strategy and policy analysis;
- Performance analysis and monitoring; and,
- Independent Advisor to the Investment Committee. A notable change in this role is that the Private Asset Class Board Investment Consultant will be required to perform an annual review of program components within an asset class. This better aligns the current role of the General Pension Consultant with the proposed roles of the Private Asset Class Board Investment Consultants.

Lastly, the Policy outlines a framework for investment decisions including transaction limits and delegation of authority parameters.

The Policy for the Role of Private Asset Class Board Investment Consultants is included as Attachment 1. The Policy was composed using information presented at both the December 2010 and February 2011 Policy Subcommittee meetings. In addition, consultant opinion letters from Pension Consulting Alliance (PCA) and Meketa are included as Attachments 2 and 3, respectively.

Given that the Private Asset Class Board Investment Consultant roles are explicitly outlined in existing investment policies, Staff requests administrative authority to remove specific Private Asset Class Board Investment Consultant responsibilities from affected policies and replace these provisions with template language referencing the new Role of Private asset Class Board Investment Consultants policy. Staff considers these updates administrative in nature and recommends that these changes be treated as such, allowing Staff to make the changes without bringing the affected policies forward for approval.

### **Next Steps**

Our next steps include:

- Revise delegations regarding the role of Private Asset Class Board Investment Consultants.
- Release Real Estate Board Investment Consultant RFP – early Fiscal Year 2011-12.
- Transition period for Real Estate's and AIM's use of Private Asset Class Board Investment Consultants
  - Private Asset Class Board Investment Consultants would start no new projects for Staff after June 30, 2011.

- Private Asset Class Board Investment Consultants would complete all existing projects for Staff by March 31, 2012. The original timeline indicated a completion date on all existing projects by December 31, 2011. Staff anticipated the new Real Estate Board Investment Consultant contract to be in place by December 31, 2011; however, given the contract and RFP process timelines, Staff now expects the Real Estate Board Investment Consultant contract to be in place by March 31, 2012.
- Amend existing LOE's to standardize role of Private Asset Class Board Investment Consultants.
- Consider applicability of these concepts to the Public Asset Class Board Investment Consultants and the General Pension Consultant. Provide information to the Policy Subcommittee at a future meeting.

#### **V. STRATEGIC PLAN:**

This item supports the following strategic goals:

- Goal I: Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.
- Goal IX: Achieve long term, sustainable, risk adjusted returns.

#### **VI. RESULTS/COSTS:**

Costs are included within the existing Investment Office budget.

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Chief Operating Investment Officer

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JOSEPH A. DEAR  
Chief Investment Officer